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UNCLAS HARARE 000852

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR FLORIZELLE LISER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON ETRD EINV PGOV ZI
SUBJECT: Haphazard Economic Reform

¶1. (U) Summary: The GOZ's rigidly statist economic policy has metamorphosed into a hodgepodge approach since January. Yet the Government still lacks commitment, consensus and leadership to see through broad economic liberalization. End Summary.

The Low Point

¶2. (U) Last November 14 was 9/11 for Zimbabwe's business community. Finance Minister Herbert Murerwa unveiled a breathtakingly interventionist budget that:

- controlled almost every retail price, often below production cost.

- reaffirmed the Grain Marketing Board (GMB)'s monopoly on maize.

- taxed export revenue indirectly at over 90 percent.

- made market-based currency trading illegal, shutting down hundreds of exchange agencies.

The budget alleviated none of the country's gaping macroeconomic distortions. Unable to secure a continued supply of nearly free fuel from Libya, Zimbabwe was marching rapidly toward economic meltdown by the year's end.

¶3. (U) Since January, however, GOZ moderates have implemented a string of reform measures. The GOZ devalued its still arbitrary official exchange rate from Z$ 55 to 824/US$, eliminated most indirect export taxes, reduced its fuel subsidy from around 88 to 25 percent and began to negotiate dollarized energy tariffs. Last week the GOZ loosened the GMB's control, permitting the free barter of small maize quantities.

Comment

¶4. (SBU) In spite of these overdue reforms, there is no hint of economic revival. With the recent arrival of energy rationing, in fact, the economy has lurched closer to meltdown.

¶5. (SBU) Why no progress despite a positive policy shift? First, reforms have been haphazard and narrow, probably reflecting conflicting views within a GOZ that still enforces unsustainable price controls and negative interest rates. Second, the GOZ has made no effort to undo damage to the economy's infrastructure - i.e., rail transport, coal extraction, power generation, steel production, large-scale agriculture - so businesses now contend with costly inefficiencies. Third, the private sector will not invest in an economy run by an unstable and bumbling Government. For example, the GOZ is so inept at calculating revenue inflows that it raised the leaded fuel price from Z$ 74 to 450 without dedicating funds for the procurement of less-subsidized fuel, gaining nothing but an enraged population. Even when trying, this GOZ does not appear up to the task of leading Zimbabwe down a reform path.

Sullivan